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Abstract

This thesis studies economic growth and income level convergence in the enlarged European Union. First, two theories of economic growth are presented, namely the neoclassical growth theory and the new growth theory. The impact of economic integration on growth is also studied. The roles of free trade and foreign investments have been proved to be beneficial for growth. This is especially important in Europe, since the European Union has both widened and deepened economic integration in Europe in the past years. In this study, also the roles of geographical location and institutions are discussed as aspects to integration.

In 2004, the European Union accepted new members to join the union. Eight of these new members are in the Central and Eastern Europe (CEE). These countries are former socialist countries, and the economic restructuring that started in the 1990s has resulted in fast economic growth in these countries. Despite their good economic performance, these new members are still much poorer than the old EU members, when their GDP per capita levels are compared.

The issue of income level convergence is of special importance regarding the enlarged European Union. The definition of convergence is presented in this thesis. According to this definition, income levels should converge if the initially poorer country grows faster than the initially richer country. Also the standard deviation of the per capita income levels should decrease as a result of the faster growth in the poorer country.

During the last years, the CEE countries have been growing faster than the old EU members on average. In theory this would lead to income level convergence. However, the differences in income per capita levels are still so large that so far the standard deviation of the income levels has not decreased. The future, however, looks promising. If the new member countries will be able to continue growing fast, then the income levels should start decreasing in the enlarged European Union. Within the next two or three decades, first ones of the CEEs will catch up the EU15 average income per capita level.

In addition to Europe wide income level disparities, it is important to also notice that the regional differences within these countries are high. In order to sustain the positive economic performance of these countries, it is worth paying attention to these increasing regional disparities.

Key words	Economic growth, integration, free trade, convergence, Eastern Europe
Further information	